

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY

MANISTEE , MICHIGAN

FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION

JUNE 30, 2006

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANISTEE, MICHIGAN
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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Manistee Downtown Development Authority	County Manistee
Fiscal Year End June 30, 2006	Opinion Date October 4, 2006	Date Audit Report Submitted to State October 31, 2006	

We affirm that:

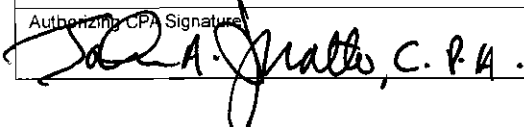
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None noted	
Other (Describe)	<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number 231-723-6275	
Street Address 475 Water Street		City Manistee	State MI
Zip 49660			
Authorizing CPA Signature 	Printed Name John A. Spratto	License Number 16245	

**KALCHER
VANDERWAL
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

Independent Auditors Report

October 4, 2006

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan 49660

We have audited the accompanying financial statements of the governmental activities and the General Fund of Manistee Downtown Development Authority as of and for the year ended June 30, 2006, which collectively comprise Manistee Downtown Development Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Manistee Downtown Development Authority management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Manistee Downtown Development Authority as of June 30, 2006 and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manistee Downtown Development Authority's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2006 on our consideration of the Downtown Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Certified Public Accountants

**KALCHER
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TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 4, 2006

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan

We have audited the financial statements of Manistee Downtown Development Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Manistee Downtown Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

FOUR SEVENTY-FIVE WATER STREET • P.O. BOX TEN • MANISTEE, MI 49660
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Members:

American Institute of Certified Public Accountants • Michigan Association of Certified Public Accountants

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Kalcher, Vanderwal & Toney, P.C.

Certified Public Accountants

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The Manistee Downtown Development Authority (DDA) is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City of Manistee in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: correct and prevent deterioration in the Downtown Development District; to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The DDA is governed by a volunteer Board of Directors, consisting of the Mayor and eight other members appointed by the Mayor, with the approval of the City Council. The DDA is a public body and conducts itself in accordance with all of the Michigan Statutes governing the operation of public agencies. The DDA Board meets the first Wednesday of each month and the DDA Marketing Committee meets the second Thursday of each month.

The DDA goals, as revised in 2005, are:

1. Hire a full time DDA director.
2. Historical – Maintain, promote, preserve and protect the historical uniqueness in the Central Business District.
3. Define and prioritize the aesthetics and maintenance of the Central Business District.
4. Encourage residential living units and appropriate parking in the Downtown District.

This section of the Manistee Downtown Development Authority's annual financial report presents its discussion and analysis of the Downtown Development Authority's financial performance during the fiscal year from July 1, 2005, to June 30, 2006.

When the budget was drafted, the revenue was estimated on a conservative basis with the expenditures being estimated on a liberal basis.

Actual revenues from Property Taxes, for the fiscal year ended June 30, 2006, were \$253,477 compared to \$255,150 for the previous year. Five percent of this \$253,477 was reserved for the Land Acquisition Account this fiscal year. The City remits TIF revenue to the DDA based on actual taxes paid and if late tax payments are received by the City, payments to the DDA would also be late.

The DDA Board voted to support a brownfield plan for the River Park Condominiums, on a parcel of land just west of Washington Street, on the Manistee River Channel. The taxes on this site, when completed, would be captured by the Manistee County Brownfield Authority for five years. After the five years, the DDA would then start capturing the taxes.

Payments on the 1996 (Riverwalk) Downtown Development bond totaled \$60,000 on the principal and \$1,380 on the interest. With this payment, the 1996 bond was paid in its entirety. The payments on the 1999 (Streetscape) bond will escalate, and are anticipated to be \$75,000 on the principal plus 4.750% for the 2006-2007 fiscal year.

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

There was a motion, which carried, at the DDA Board meeting on April 5, 2006, to change over to a Sweep Bank Account, at Northwestern Bank. In the past, transfers of money were requested from the Money Market Account to the Business Checking Account to cover checks being written for expenses. It was determined that it would be advantageous to change to a Sweep Account, as money is automatically transferred back and forth, and would provide an increase in interest earned.

A resolution was adopted, on April 5, 2006, to enter into a Joint Resolution of Maintenance Agreement with the City of Manistee. A maintenance list was composed by the DDA Maintenance Committee, which was reviewed by the DDA Board and submitted to the City of Manistee. It was agreed that \$18,000 would be paid to the City of Manistee for maintenance in the downtown area during the fiscal year ended June 30, 2007.

A resolution was adopted, on March 1, 2006, by the DDA Board naming Steve Brower, David Carlson, Kyle Mosher, and David Yarnell as signatories on behalf of the Manistee Downtown Development Authority in any of its business with Northwestern Bank or any other financial institution as deemed necessary by the Board of Directors. It was specified that account transactions must be endorsed by any two of the named persons.

On May 3, 2006, the DDA Board agreed that the Downtown Merchants contributions to the marketing fund would be matched by the DDA Board during the 2006-2007 fiscal year. A budgeted amount was set at \$11,000.

Hiring a full time Downtown Development Authority director would have an impact on the budget; however, this item has been postponed. It was decided that each year, when the DDA Budget Committee meets, this matter will be considered as to its feasibility in relation to monies available for pay for a full time director.

Overview of the Financial Statements

This annual report consists of the following parts:

1. Management's discussion and analysis.
2. Statement of Net Assets.
3. Statement of Activities.
4. General Fund Balance Sheet.
5. Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Assets.
6. Statement of Revenue, Expenditures and Changes in Fund Balance.
7. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the General Fund to the Statement of Activities.
8. Notes to Financial Statements.
9. Required Supplemental Information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the DDA's budget for the year to actual revenue and expenditures.

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Fund Financial Statements

The DDA has one kind of fund:

* Governmental fund: The DDA's basic services are included in a governmental fund, which generally focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statement provides a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the DDA's programs. Because this information does not encompass the additional long-term focus of the DDA-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the DDA-wide Statements and the Fund Financial Statements.

Manistee Downtown Development Authority
Management Discussion and Analysis
For The Year Ended June 30, 2006

Financial Analysis Of The DDA As A Whole

Net Assets - The DDA's net assets were \$377,854 for the year ended June 30, 2006. See Figure A-2 illustrating the valuation of net assets.

Figure A-2

	<u>As of</u> <u>June 30, 2006</u>	<u>As of</u> <u>June 30, 2006</u>
<u>Assets</u>		
Cash	\$ 338,593	\$ 293,672
Receivable - Downtown Merchants	-	6,150
Property Tax Receivable	<u>39,261</u>	<u>619</u>
Total Assets	<u>\$ 377,854</u>	<u>\$ 300,441</u>
<u>Liabilities</u>		
Accounts Payable	\$ -	\$ 5,258
Accrued Interest	-	920
Due within one year	-	60,000
Unearned Revenue	<u>-</u>	<u>5,850</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 72,028</u>
<u>Net Assets</u>		
Unrestricted	<u><u>\$ 377,854</u></u>	<u><u>\$ 228,413</u></u>

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Condensed Statements of Activities

	<u>2006</u>	<u>2005</u>
Revenues:		
Program Revenue		
Charges for Services	\$ 5,400	\$ 17,450
General Revenue		
Property Taxes	253,477	255,150
Miscellaneous	649	562
Interest Income	8,592	3,971
Transfers	<u>(84,576)</u>	<u>(79,926)</u>
Total Revenue	<u>\$ 183,542</u>	<u>\$ 197,207</u>
Expenses:		
Downtown Development	\$ 33,641	\$ 36,610
Interest on Long-Term Debt	<u>460</u>	<u>2,975</u>
Total Expenses	<u>\$ 34,101</u>	<u>\$ 39,585</u>
Net Assets - July 1,	<u>\$ 228,413</u>	<u>\$ 70,791</u>
Net Assets - June 30,	<u><u>\$ 377,854</u></u>	<u><u>\$ 228,413</u></u>

Capital Asset and Debt Administration

Capital Assets – No capital assets. Any assets in the past have been transferred to the City of Manistee. Funding used to pay down debt.

Factors Bearing on the DDA's future

At the time these financial statements were prepared and audited, the DDA was aware of the following circumstances that could significantly affect its financial health in the future:

- The feasibility of hiring a full time or part time DDA Director.

Contacting the DDA's Financial Management

This financial report is designed to provide the DDA's citizens and taxpayers with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the DDA's Acting Administrator – David Yarnell.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets

Cash	\$ 338,593
Property Tax Receivable	39,261
Total Assets	<u>\$ 377,854</u>

Liabilities

\$ -

Net Assets

Unrestricted	<u><u>\$ 377,854</u></u>
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The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

				Governmental Activities
				Net (Expense)
			Operating Grants/ Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>		
Governmental Activities:				
Downtown Development	\$ 33,641	\$ 5,400	\$ -	\$ (28,241)
Interest on Long-Term Debt	460	-	-	(460)
Total Governmental Activities	<u>\$ 34,101</u>	<u>\$ 5,400</u>	<u>\$ -</u>	<u>\$ (28,701)</u>
General Revenues:				
Property Taxes				\$ 253,477
Miscellaneous Income				649
Investment Income				8,592
Transfers				(84,576)
Total General Revenues and Transfers				<u>\$ 178,142</u>
Change in Net Assets				\$ 149,441
Net Assets - Beginning of Year				<u>\$ 228,413</u>
Net Assets - End of Year				<u>\$ 377,854</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
GENERAL FUND
BALANCE SHEET
JUNE 30, 2006

Assets

<u>Assets</u>	
Cash	\$ 338,593
Property Tax Receivable	39,261
Total Assets	<u>\$ 377,854</u>

Liabilities and Fund Balance

<u>Liabilities</u>	<u>\$ -</u>
 <u>Fund Balance</u>	
Unreserved:	
Undesignated	\$ 327,721
Designated	50,133
Total Fund Balance	<u>\$ 377,854</u>
 Total Liabilities and Fund Balance	 <u>\$ 377,854</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Fund Balance - Total General Fund	\$ 377,854
There were no reconciling items during the year ended June 30, 2006	<u>-</u>
Net Assets - Governmental Activities	<u><u>\$ 377,854</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

Revenue

Property Taxes	\$ 253,477
• Downtown Marketing Program	5,400
• Interest Income	8,592
• Miscellaneous	649
Total Revenue	<u>\$ 268,118</u>

Expenditures

Farmer's Market	\$ 98
Contributions	3,950
Dues and Subscriptions	300
EDO Allocation	7,000
Incentive	1,445
Miscellaneous	1,533
Marketing Downtown Expense	14,275
Office Supplies	144
Postage and Delivery	92
Professional Fees	3,910
Travel and Entertainment	481
Supplies	262
Website Maintenance	151
Debt Service:	
Principal Retirement	60,000
Interest	1,380
Total Expenditures	<u>\$ 95,021</u>

Excess of Revenues Over Expenditures \$ 173,097

Other Financing Sources (Uses):

• Transfer to Primary Government \$ (84,576)

• Excess of Revenues Over Expenditures and Other Uses \$ 88,521

Fund Balance - Beginning of Year 289,333

Fund Balance - End of Year \$ 377,854

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net Change in Fund Balance - Total General Fund	\$	88,521
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Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Repayments of Principle on Long-term Debt is an Expenditure in the Governmental Funds, but not in the Statement of Activities		60,000
--	--	--------

Accrued Interest on Long-Term Debt is Recorded in the Statement of Activities, but not in the Governmental Fund		920
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Change in Net Assets of Governmental Activities	\$	<u>149,441</u>
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The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 - Reporting Entity

The Manistee Downtown Development Authority is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: to correct and prevent deterioration in the Downtown Development District, to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The Authority is governed by a nine-member board consisting of the Mayor of the City of Manistee and at least five (5) persons having an interest in property located in the downtown district. At least one of the board members shall be a resident of the downtown district if it has one hundred or more persons residing within it.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of Manistee Downtown Development Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the Statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's Government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to the downtown merchants to cover the costs of marketing the downtown area. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 2 - Summary of Significant Accounting Policies – *continued*

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – *continued*

Government-wide Financial Statements - *continued*

Amounts reported as program revenue consist of charges to downtown merchants for promotional costs.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The authority reports the following major governmental fund:

General Fund - The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

Comparative Data – Comparative data is not included in the Authority's financial statements.

Note 3 – Stewardship, Compliance, and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Authority to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits authorities to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 3 – Stewardship, Compliance, and Accountability - *continued*

Excess of Expenditures Over Appropriations in Budgeted Funds – The Downtown Development Authority incurred an expenditure in excess of the amount appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over Expended</u>
<u>Description</u>			
Professional Services	\$ 3,500	\$ 3,910	\$ 410

The above over expended amount is contrary to the provisions of Public Act 621 of 1978, Section 18(1), as amended, which provides that, except as otherwise noted in Section 19, a deviation from the original appropriations act shall not be made without amending the general appropriation act.

Note 4 - Deposits

Act 217, PA 1982, as amended, authorizes the Authority to deposit and invest in the following:

- a) Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Banker's acceptances of United States banks.
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g) Mutual funds registered under the investment company act of 1940, title 1 of chapter 686, 4 Stat. 789, 15USC 80a-1 to 80a-3 and 80-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i. The purchase of securities on a when-issued or delayed delivery basis.
- ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the securities loaned.
- iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 4 – Deposits – *continued*

- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.
- i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367.
- j) The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121.

The carrying amounts of the Downtown Development Authority's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) was \$ 338,593 of which \$ 100,000 was covered by federal depository insurance and \$ 238,593 was uninsured and uncollateralized.

Note 5 - Risk Management

Manistee Downtown Development Authority is included as an insured under policies held by the City of Manistee.

Note 6 - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 7 – Designated Fund Balance

The Board of Directors have decreed that an amount equal to five percent (5%) of annual gross property tax revenues be allocated to designated fund balance to be used for land acquisition.

REQUIRED SUPPLEMENTAL INFORMATION

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Actual Over/Under Final Budget
<u>Revenues</u>				
Property Taxes	\$ 263,080	\$ 263,080	\$ 253,477	\$ (9,603)
Downtown Marketing Program	17,000	17,000	5,400	(11,600)
Interest Income	4,000	4,000	8,592	4,592
Miscellaneous	-	-	649	649
Total Revenue	<u>\$ 284,080</u>	<u>\$ 284,080</u>	<u>\$ 268,118</u>	<u>\$ (15,962)</u>
<u>Expenditures</u>				
EDO Allocation	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Incentive Program	10,000	10,000	1,445	8,555
Maintenance	2,000	2,000	-	2,000
Miscellaneous	4,000	4,000	3,061	939
Professional Fees	3,500	3,500	3,910	(410)
Special Projects	60,000	60,000	-	60,000
Marketing	32,000	32,000	18,225	13,775
Land Acquisition	13,354	13,354	-	13,354
Debt Service:				
Payment of Debt Principal	60,000	60,000	60,000	-
Interest	1,380	1,380	1,380	-
Total Expenditures	<u>\$ 193,234</u>	<u>\$ 193,234</u>	<u>\$ 95,021</u>	<u>\$ 98,213</u>
Revenue Over (Under) Expenditures	\$ 90,846	\$ 90,846	\$ 173,097	\$ 82,251
Other Financing Sources (Uses)				
Operating Transfers Out	<u>\$ (84,576)</u>	<u>\$ (84,576)</u>	<u>\$ (84,576)</u>	<u>\$ -</u>
Revenue and Other Sources Over (Under) Expenditures	6,270	6,270	88,521	82,251
Fund Balance - July 1, 2005	<u>289,333</u>	<u>289,333</u>	<u>289,333</u>	<u>-</u>
Fund Balance - June 30, 2006	<u><u>\$ 295,603</u></u>	<u><u>\$ 295,603</u></u>	<u><u>\$ 377,854</u></u>	<u><u>\$ 82,251</u></u>

See Notes to Financial Statements.